

BEGINNING FARMER REVOLVING LOAN FUND

FINANCIAL STATEMENTS

DECEMBER 31, 2009 AND 2008

BEGINNING FARMER REVOLVING LOAN FUND

Table of Contents

	<u>Exhibit</u>	<u>Page</u>
INDEPENDENT AUDITOR’S REPORT		1
MANAGEMENT’S DISCUSSION AND ANALYSIS		3
FINANCIAL STATEMENTS		
Balance Sheets		7
Statements of Revenues, Expenses and Changes in Fund Net Assets		8
Statements of Cash Flows		9
Notes to Financial Statements		10
EXHIBITS		
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	A-1	17
Auditor’s Specific Comments Requested by the North Dakota Legislative Audit and Fiscal Review Committee	A-2	19
Independent Auditor’s Communication to the Industrial Commission of North Dakota	B-1	21



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the accompanying balance sheets of the Beginning Farmer Revolving Loan Fund as of December 31, 2009 and 2008, and the related statements of revenues, expenses and changes in fund net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

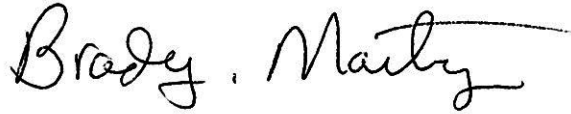
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Beginning Farmer Revolving Loan Fund and do not purport to, and do not, present fairly the financial position and results of the operations and cash flows of the State of North Dakota, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Beginning Farmer Revolving Loan Fund as of December 31, 2009 and 2008, and the results of its operations and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 10, 2010, on our consideration of the Beginning Farmer Revolving Loan Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and is important for assessing the results of our audit.

The Management's Discussion and Analysis on page 3 through 6 is not a required part of the basic financial statements but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style with a horizontal line extending from the end of the name.

BRADY, MARTZ & ASSOCIATES, P.C.

March 15, 2010

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT DISCUSSION AND ANALYSIS
DECEMBER 31, 2009 and 2008

The management discussion and analysis of the Beginning Farmer Revolving Loan Fund (Fund) financial performance provides an overview of the Fund's financial activities for the fiscal year ended December 31, 2009. Please read it in conjunction with the financial statements of the Fund.

FINANCIAL HIGHLIGHTS:

Beginning Farmer Real Estate Loans Originated out of the Fund:

There are two categories of Beginning Farmer Real Estate loans made directly out of the Fund. The first group of loans were made in conjunction with the Federal Land Bank where the Fund was in a second mortgage position. There have been no loans made in this group since 1985. The second group of loans were made directly by the Fund with a first mortgage on the real estate. There were 48 loans totaling \$1.7 million outstanding at December 31, 2009 between these categories. The total direct loans were 55 loans totaling \$1.9 million at December 31, 2008. There have been no loans of these two categories made in the past two years.

Beginning Farmer Chattel Loans Originated out of the Fund:

There are two components to this program. These loans are made in conjunction with a lead lender. The Fund is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. These loans are secured by a first security interest on the chattel with a maximum loan to collateral value of 80%. The borrowers are limited to \$400,000 in total loans. There were 63 loans totaling \$2,423,000 made during 2009 with this loan program. These loans will utilize \$457,000 in buy down interest. There were 63 loans made during 2008 with this program totaling \$2,319,000. These loans will utilize \$442,000 in buy down interest. The second component of this program provides for interest buy down on the lead lender's share of the loan. The lead lender's interest rate may not exceed 3% over BND's base rate and may be variable or fixed. Interest buy down funds are provided through the chattel loan program, to the extent available, to reduce the borrower's interest rate by up to 5% subject to a minimum rate of 1% to the borrower.

Beginning Farmer Real Estate Loans Funded by BND:

Currently beginning farmer real estate loans are being funded directly by Bank of North Dakota. The Fund provides buy down funds, to the extent available, to reduce the borrower's interest rate by 2% for the first five years of the loan. The borrower is limited to \$400,000 in total loans. There were 72 loans totaling \$13,134,000 made during 2009 with this program. These loans will require \$1,250,000 in buy down interest during the life of the loans. There were 55 loans totaling \$8,797,000 made during 2008, which will utilize \$844,000 in buy down interest during the life of the loans. There are currently 256 loans outstanding totaling \$35,925,000 made directly by the Bank of North Dakota that are receiving buy down interest from the Fund.

Beginning Farmer Revolving Fund Balance Summary:

There remains \$2,619,000 in cash available to provide loans and to buy down the interest rate on loans to beginning farmers for both chattel and real estate purchases. There was no appropriation from the general fund for the biennium July 1, 2009 through June 30, 2011 by the Legislature for interest buy down purposes on loans to beginning farmers. Currently, only chattel loans are being funded with available cash in the Fund.

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT DISCUSSION AND ANALYSIS – CONTINUED
DECEMBER 31, 2009 and 2008

Envest Loans Funded by BND and a Lead Lender:

Subsection 9 of Section 6-09-15.5 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000,000 can be transferred from the Fund during a biennium. There was one Envest loan made during 2009 totaling \$25,000 that was not eligible for interest buydown from the Fund. There were 4 loans made during 2008 totaling \$193,500 which will utilize \$34,511 in interest buy down from the Fund.

REQUIRED FINANCIAL STATEMENTS:

The Fund is an enterprise fund and uses the accrual basis of accounting. The basic financial statements include the balance sheet, statements of revenues, expenses, and changes in fund net assets, and statements of cash flows. The balance sheet provides readers the assets and liabilities of the Fund, with the differences between the two reported as net assets. The statements of revenues, expenses, and changes in fund net assets identify the operating performance of the Fund for the calendar year. The statement of cash flows identifies cash flows from operating activities and investing activities and provides answers to such questions as where did the cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

CONDENSED BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	(In Thousands)	
	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash deposits	\$ 2,619	\$ 4,487
Loans, current portion	1,687	1,758
Prepaid interest and interest receivable	1,304	1,198
Total current assets	<u>5,610</u>	<u>7,443</u>
NONCURRENT ASSETS		
Loans, net	6,710	6,103
Prepaid interest	2,249	1,769
Total noncurrent assets	<u>8,959</u>	<u>7,872</u>
Total assets	<u>\$ 14,569</u>	<u>\$ 15,315</u>
CURRENT LIABILITIES	\$ 11	\$ 11
NET ASSETS - UNRESTRICTED	<u>14,558</u>	<u>15,304</u>
Total liabilities and net assets	<u>\$ 14,569</u>	<u>\$ 15,315</u>

(continued on next page)

BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT DISCUSSION AND ANALYSIS – CONTINUED
DECEMBER 31, 2009 and 2008

Loans

On an aggregate basis, the net loan portfolio increased by \$536,457. There were no loans on nonaccrual status and no loans 90 days or more past due as of December 31, 2009. There were no loan chargeoffs during 2009.

Net assets

At December 31, 2009, net assets are \$14.6 million. As described in Note 1, direct real estate loans and chattel loans are funded directly from the net assets of the Fund. The Fund is directed by the North Dakota Industrial Commission. The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund.

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	(In Thousands)	
	2009	2008
OPERATING REVENUES	\$ 366	\$ 454
OPERATING EXPENSES	<u>1,021</u>	<u>952</u>
OPERATING LOSS	(655)	(498)
NONOPERATING REVENUES	<u>19</u>	<u>75</u>
LOSS BEFORE TRANSFERS	(636)	(423)
TRANSFERS	<u>(110)</u>	<u>-</u>
CHANGE IN NET ASSETS	(746)	(423)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>15,304</u>	<u>15,727</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$ 14,558</u>	<u>\$ 15,304</u>

Revenue

Revenue is from interest accrued on loans outstanding. The interest rates earned on these loans range from 3% to 8%.

Expenses

Buydown interest is paid to the banks that participate in the various programs of the Fund. Bank of North Dakota is paid 1/2% on the outstanding loan balances as an administrative fee. Other expenses are for the independent audit of the financial records and miscellaneous expenditures incurred in connection with loan servicing.

**BEGINNING FARMER REVOLVING LOAN FUND
MANAGEMENT DISCUSSION AND ANALYSIS – CONTINUED
DECEMBER 31, 2009 and 2008**

Nonoperating revenue

Nonoperating revenue represents interest earned on the cash balance.

Changes in net assets

Net assets decreased by \$746,000 or a 4.9% decrease.

CONTACTING THE LOAN FUND’S FINANCIAL MANAGEMENT:

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Fund’s finances and to demonstrate the Fund’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Bank of North Dakota, P.O. Box 5509, Bismarck, North Dakota 58506-5509.

BEGINNING FARMER REVOLVING LOAN FUND
BALANCE SHEETS
DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
ASSETS		
CURRENT ASSETS		
Cash deposits at the Bank of North Dakota	\$ 2,619,189	\$ 4,487,019
Loans, current portion	1,687,356	1,758,124
Prepaid interest, current portion	1,071,831	927,167
Interest receivable	232,141	271,072
	<u>5,610,517</u>	<u>7,443,382</u>
Total current assets		
NONCURRENT ASSETS		
Loans, net of allowance for loan losses of \$609,367 in 2009 and 2008	6,709,767	6,102,542
Prepaid interest	2,249,021	1,768,796
	<u>8,958,788</u>	<u>7,871,338</u>
Total noncurrent assets		
Total assets	<u><u>\$14,569,305</u></u>	<u><u>\$ 15,314,720</u></u>
LIABILITIES		
CURRENT LIABILITIES		
Due to the Bank of North Dakota	\$ 11,180	\$ 10,828
NET ASSETS		
Unrestricted	14,558,125	15,303,892
Total liabilities and net assets	<u><u>\$14,569,305</u></u>	<u><u>\$ 15,314,720</u></u>

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING REVENUES		
Interest on loans	\$ 365,965	\$ 453,474
Loan fees	184	374
	<u>366,149</u>	<u>453,848</u>
OPERATING EXPENSES		
Buy-down interest	974,138	904,426
Administrative fees	42,537	43,768
Other expenses	4,000	3,800
	<u>1,020,675</u>	<u>951,994</u>
OPERATING LOSS	(654,526)	(498,146)
NONOPERATING REVENUES		
Investment income	<u>18,759</u>	<u>75,192</u>
LOSS BEFORE TRANSFERS	<u>(635,767)</u>	<u>(422,954)</u>
TRANSFERS		
Transfer to Biomass Incentive and Research Program	(110,000)	-
CHANGE IN NET ASSETS	(745,767)	(422,954)
TOTAL NET ASSETS, BEGINNING OF YEAR	<u>15,303,892</u>	<u>15,726,846</u>
TOTAL NET ASSETS, END OF YEAR	<u>\$14,558,125</u>	<u>\$ 15,303,892</u>

BEGINNING FARMER REVOLVING LOAN FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Loan interest received	\$ 404,897	\$ 488,788
Loan fees received	184	374
Loan advances	(2,423,427)	(2,319,303)
Proceeds from principal collections on loans	1,886,970	2,496,610
Payment of buy-down interest to lenders	(1,599,028)	(1,223,006)
Payment of administration fees to Bank of North Dakota	(42,185)	(44,000)
Payment of other expenses	(4,000)	(3,800)
NET CASH USED FOR OPERATING ACTIVITIES	<u>(1,776,589)</u>	<u>(604,337)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Transfer to Biomass Incentive and Research Program	<u>(110,000)</u>	<u>-</u>
INVESTING ACTIVITY		
Investment income received	<u>18,759</u>	<u>75,192</u>
NET CHANGE IN CASH	<u>(1,867,830)</u>	<u>(529,145)</u>
CASH, BEGINNING OF YEAR	<u>4,487,019</u>	<u>5,016,164</u>
CASH, END OF YEAR	<u><u>\$ 2,619,189</u></u>	<u><u>\$ 4,487,019</u></u>
RECONCILIATION OF OPERATING INCOME TO		
NET CASH USED FOR OPERATING ACTIVITIES		
Operating loss	\$ (654,526)	\$ (498,146)
Adjustments to reconcile operating loss		
to net cash used for operating activities		
Decrease in interest receivable	38,931	35,314
Decrease/(increase) in loans	(536,457)	177,307
Increase in prepaid interest	(624,889)	(318,580)
Increase/(decrease) in due to the Bank of North Dakota	352	(232)
NET CASH USED FOR OPERATING ACTIVITIES	<u><u>\$ (1,776,589)</u></u>	<u><u>\$ (604,337)</u></u>

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2009 AND 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Section 6-09-15.5 of the North Dakota Century Code (NDC) established the Beginning Farmer Revolving Loan Fund (Fund). The purpose of the Fund is to make or participate in loans to North Dakota beginning farmers for the purchase of agricultural real estate, equipment, and livestock. The Fund is a revolving fund, and all moneys transferred into the fund, interest upon moneys in the Fund, and payments to the Fund of principal and interest on loans made from the fund are appropriated for the purpose of providing loans and to supplement the interest rate on loans to beginning farmers.

The Bank of North Dakota supervises and administers the Fund and the loans made by the Fund. Four programs have been established under the Fund, including two direct loan programs and two interest buy-down programs.

Direct Real Estate Loans

Previous to 1989, most of the loans made by the Fund were made to beginning farmers in conjunction with the Federal Land Bank of St. Paul. These loans are secured by a second mortgage on agricultural real estate and may not exceed the lesser of 35% of the appraised value of the real estate or \$100,000 per borrower.

Subsequent to 1988, a direct real estate loan may not exceed 75% of the current appraised value of the farm real estate on which the Fund receives a first mortgage as security. The total loan amount was increased from \$100,000 to \$150,000 in 1999, to \$250,000 in 2005, and to \$400,000 in 2009. The borrower is restricted to a lifetime cap of \$400,000 under this program. The term of the loan may not exceed 25 years. The interest rate will be fixed at one percent below the Bank of North Dakota's current base rate for the first five years of the loan with maximum interest rate of six percent and variable at one percent below the Bank's then current base rate adjusted annually for the next five years. For the remaining period of the loan, interest must be charged at the Bank's base rate.

Interest Buy-downs on Real Estate Loans

The Bank of North Dakota makes direct loans to beginning farmers for the purchase of farm real estate. The loans are restricted to the same terms as indicated above. The interest rate for the first five years is supplemented by 2% per annum from the Fund.

Chattel Loans

A participation loan for the purchase of equipment or livestock may not exceed 80% of the agricultural collateral on which the Fund receives a first security interest as collateral. The Fund is required to participate in at least 50% of the total loan, and not more than 80%, with the balance to be retained by the lead lender. The total loan amount was increased from \$250,000 to \$400,000 in 2009. The borrower is restricted to a lifetime cap of \$400,000 under this program for the purchase of equipment or livestock. The term of the loan may not exceed 7 years. The interest rate on Fund's share of the chattel loan will be fixed at one percent below the Bank of North Dakota's current base rate for the first five years of the loan with maximum interest rate of six percent and variable at one percent below the Bank's then current base rate adjusted annually for the next two years.

Interest Buy-downs on Chattel Loans

The lead lender's interest rate of the chattel loan will be set according to prevailing market rates, but may not exceed 3% over the Bank of North Dakota's base rate. Interest buy-downs funds, to the extent they are available, are used to reduce the lead lender's rate by 5% subject to a minimum rate of 1% to the borrower.

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

Interest Buy-downs on Envest Loans

Subsection 9 of Section 6-09-15.5 of the North Dakota Century Code authorizes the Bank of North Dakota to provide interest buy down on value-added agriculture equity loans (Envest) made for investment in a feedlot or dairy operation. This legislation began August 1, 2007 and states that no more than \$1,000,000 can be transferred from the Fund during a biennium. There was 1 loan made during 2009 totaling \$25,000. This loan will not utilize interest buydown from the Fund. There were 4 loans made during 2008 totaling \$193,500 which will utilize \$34,511 in interest buy down from the Fund.

Reporting Entity

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, the Fund should include all component units over which the Fund exercises such aspects as (1) appointing a voting majority of an organization's governing body and (2) has the ability to impose its will on that organization or, (3) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Fund.

Based on the criteria of GASB Statement No. 14, no organizations were determined to be part of the reporting entity. The Fund is included as part of the primary government in the State of North Dakota's reporting entity.

Accounting Standards and Adoptions of Accounting Policies

The Fund follows the pronouncements of the Governmental Accounting Standards Board, which is the nationally accepted standard setting body for establishing generally accepted accounting standards for governmental entities. In accordance with GASB Statement No. 20, the Fund follows all applicable GASB pronouncements as well as Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with GASB pronouncements.

Fund Accounting

The Fund is an enterprise fund and uses the accrual basis of accounting. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All enterprise funds are accounted using the economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Net assets is segregated into invested or capital assets, net of related debt, and unrestricted components. The statements of revenues, expenses and changes in fund net assets present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The statements of cash flows present the cash flows for operating activities, non-capital financing activities, and investing activities.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses.

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

Significant Group Concentrations of Credit Risk

All of the Fund's business is with beginning farmers within the State of North Dakota. Concentrations of credit are present in the agricultural industry. Due to the pervasive nature of agriculture in the economy of the state, all loans are impacted by agriculture.

Cash and Cash Equivalents

The Fund considers all cash and time deposits with original maturities of three months or less to be cash and cash equivalents for the purpose of reporting cash flows.

Loans

Loans are stated at their outstanding unpaid principal balance. Interest income on loans is accrued at the specific rate on the unpaid principal balance.

The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Allowance for Loan Losses

The Fund uses the allowance method in providing for loan losses. Accordingly, the allowance is increased by the current year's provision for loan losses charged to operations and reduced by net charge-offs.

The adequacy of the allowance for loan losses and the provisions for loan losses charged to operations are based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. Loans are charged to the allowance when management believes the collection of the principal is doubtful.

A loan is considered impaired when, based on current information and events, it is probable that the Fund will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Credit Related Financial Instruments

In the ordinary course of business, the Fund has entered into commitments to buy-down interest rates on loans. Such financial instruments are recorded when they are funded.

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

Operating and Non-operating Revenues

Operating revenues consist of sales of goods and services, quasi-external operating transactions with other funds, grant revenue for specific activities that are considered to be operating activities of the grantor, receipts from other agencies for reimbursement of operating transactions and other miscellaneous revenue. Grants that would qualify as an operating activity are those that do not subsidize an existing program, rather they finance a program the agency would not otherwise undertake.

All other revenues that do not meet the above criteria are classified as non-operating.

NOTE 2 - DEPOSITS

The carrying value and bank balance of the Fund's cash deposits at December 31, 2009 and 2008 was \$2,619,189 and \$4,487,019, respectively. Of the bank amounts, none were covered by depository insurance and all are uncollateralized. These monies are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

Custodial and Concentration of Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the Fund will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Fund does not have a formal policy that limits custodial credit risk for deposits. None of the Fund's deposits are covered by depository insurance. The Fund's deposits are uncollateralized and all of the deposits are deposited in the Bank of North Dakota and are guaranteed by the State of North Dakota (NDCC Section 6-09-10).

NOTE 3 - LOANS

A description of Fund loans is included under "Nature of Operations" in Note 1. A summary of the balances of loans follows:

	<u>2009</u>	<u>2008</u>
Loans, current portion	\$ 1,687,356	\$ 1,758,124
Loans, noncurrent portion	7,319,134	6,711,909
Total loans	9,006,490	8,470,033
Allowance for loan losses	609,367	609,367
Total loans, net	<u>\$ 8,397,123</u>	<u>\$ 7,860,666</u>

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

Changes in the balances of loans follows:

	Real Estate Loans		Chattel Loans		Total
	Number	Amount	Number	Amount	Amount
Balance,					
December 31, 2007	77	\$ 2,192,918	288	\$ 6,454,422	\$ 8,647,340
Loan advances	-	-	63	2,319,303	2,319,303
Principal collections	(22)	(342,361)	(54)	(2,154,249)	(2,496,610)
Balance,					
December 31, 2008	55	1,850,557	297	6,619,476	8,470,033
Loan advances	-	-	63	2,423,427	2,423,427
Principal collections	(7)	(157,744)	(48)	(1,729,226)	(1,886,970)
Balance,					
December 31, 2009	48	\$ 1,692,813	312	\$ 7,313,677	\$ 9,006,490

There were no impaired loans as of December 31, 2009 and 2008. There were no loans on nonaccrual status and no loans 90 days or more past due as of December 31, 2009 and 2008. There were no changes in the allowance for loan losses for the year ending December 31, 2009 and 2008.

NOTE 4 - PREPAID INTEREST AND COMMITMENTS

A description of the interest buy-down programs is included under "Nature of Operations" in Note 1. The moneys that are being paid to the Bank of North Dakota of the other lead lenders to buy down the interest rate for qualifying loans is paid in advance. Prepaid interest is amortized over the life of the loans based upon the repayment terms of the loan for chattel and Envest loans. Prepaid interest is amortized over five years based upon the repayment terms of the loan for real estate loans. A summary of the balances of prepaid interest follows:

	2009	2008
Prepaid interest, current portion	\$ 1,071,831	\$ 927,167
Prepaid interest, noncurrent portion	2,249,021	1,768,796
Total prepaid interest	\$ 3,320,852	\$ 2,695,963

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

Changes in the balances of prepaid interest follows:

	Real Estate Loans (BND)	Chattel Loans (Other Banks)	Envest Loans	Total Prepaid Interest
Balance, December 31, 2007	\$ 1,402,774	\$ 974,609	\$ -	\$ 2,377,383
Additions, net of returns	823,074	365,422	34,510	1,223,006
Amortization	(599,342)	(305,084)	-	(904,426)
Balance, December 31, 2008	1,626,506	1,034,947	34,510	2,695,963
Additions, net of returns	1,175,285	423,741		1,599,026
Amortization	(642,052)	(324,278)	(7,807)	(974,137)
Balance, December 31, 2009	<u>\$ 2,159,739</u>	<u>\$ 1,134,410</u>	<u>\$ 26,703</u>	<u>\$ 3,320,852</u>

The prepaid interest at the Bank of North Dakota is being utilized to buydown the interest rate on 256 loans with outstanding principal balances of \$35,925,000 as of December 31, 2009 and 269 loans with a balance of \$30,879,000 as of December 31, 2008. The prepaid interest at other lead lenders is being utilized to buy down the interest rate on chattel loans made by participating banks involved with the chattel loan program.

NOTE 5 - RELATED PARTY TRANSACTIONS

During the year ended December 31, 2009, the Fund transferred \$110,000 to the Biomass Incentive Program. During the 2007 Legislative Session, House Bill 1515 was passed establishing the Biomass Incentive and Research Program. This was set up as a separate fund, not a continuing appropriation. The funding source for the Biomass Incentive and Research fund is \$1,000,000 from the Beginning Farmer Revolving Fund and \$1,000,000 from the Biofuel Partnership in Assisting Community Expansion Fund. On June 26, 2009 the Industrial Commission moved to approve the recommendation that up to \$1,660,710 be transferred from the special funds (\$690,710 from the Beginning Farmer Revolving Loan Fund and \$970,000 from Biofuel PACE Fund) to cover the costs of the Biomass Incentive Program with the understanding that if the program applications are not approved the uncommitted funds will be returned to the Bank of North Dakota special funds. The actual transfer made was \$110,000 from the Beginning Farmer Revolving Loan Fund and \$970,000 from the Biofuel PACE fund. There were no transfers to other funds during the year ended December 31, 2008.

House Bill 1008 passed by the 2009 Legislature appropriates the expenditures of up to \$800,000 from the Beginning Farmer Revolving Loan Fund to pay for costs associated with a rail rate complaint case.

The Fund is supervised and administered by the Bank of North Dakota. All cash accounts are deposited in the Bank of North Dakota. The annual administrative fees charged by the Bank are equivalent to one-half percent of the outstanding loans. Administrative fee expense charged by the Bank totaled \$42,537 and \$43,768 for the years ended December 31, 2009 and 2008, respectively. The Fund owed the Bank \$11,180 and \$10,828 as of December 31, 2009 and 2008, respectively.

The Fund also has on deposit with the Bank of North Dakota monies used to fund the interest buy-downs on real estate and chattel loans, which is included in prepaid interest on the Fund's balance sheet (See Note 4).

BEGINNING FARMER REVOLVING LOAN FUND
NOTES TO FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2009 AND 2008

NOTE 6 - RISK MANAGEMENT

The Fund is exposed to various risks of loss related to torts and errors and omissions. The Fund is administered by the Bank of North Dakota and, therefore, is eligible to the same funds/pools established by the State for risk management issues. These include:

The 1995 Legislative Session established the Risk Management Fund (RMF), an internal service fund, to provide a self-insurance vehicle for funding the liability exposures of State Agencies resulting from the elimination of the State's sovereign immunity. The RMF manages the tort liability of the State, its agencies' employees, and the University System. All State agencies participating in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The State Bonding Fund currently provides the Fund with blanket employee fidelity bond coverage in the amount of \$100,000. The State Bonding Fund does not currently charge any premium for this coverage.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage.



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Exhibit A-1

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Beginning Farmer Revolving Loan Fund as of and for the year ended December 31, 2009, and have issued our report thereon March 10, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements of the Beginning Farmer Revolving Loan Fund as of and for the year ended December 31, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered the Beginning Farmer Revolving Loan Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

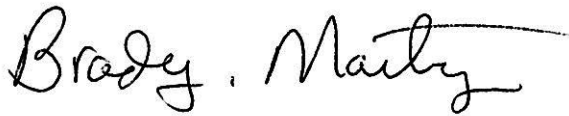
A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Beginning Farmer Revolving Loan Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This communication is intended solely for the information and use of management, the North Dakota Industrial Commission, and Legislative Audit and Fiscal Review Committee, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, reading "Brady Martz". The signature is written in a cursive, flowing style. The first name "Brady" is followed by a comma, and then the last name "Martz" is written.

BRADY, MARTZ & ASSOCIATES, P.C.

March 10, 2010



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

Exhibit A-2

**BEGINNING FARMER REVOLVING LOAN FUND
AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED DECEMBER 31, 2009**

The Industrial Commission
State of North Dakota
Bismarck, North Dakota

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of state agencies. The items and our responses are as follows:

1. What type of opinion was issued on the financial statements?

An unqualified opinion was issued on the 2009 financial statements.

2. Was there compliance with statutes, laws, rules, regulations under which the agency was created and is functioning?

Yes - A review was made of Chapter 6-09-15.5 and other pertinent chapters of the North Dakota Century Code and we felt the Agency operated within the statutes, laws, rules and regulations under which it was created.

3. Was internal control adequate and functioning effectively?

Yes

4. Were there any indications of lack of efficiency in financial operations and management of the agency?

No

5. Has action been taken on findings and recommendations included in prior year audit reports?

There were no prior year findings.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management response.

No

Audit Committee Communications:

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

None

- 2. Identify any significant accounting estimates, the process used by management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

None

- 3. Identify any significant audit adjustments.**

None

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None

- 5. Identify any significant difficulties encountered in performing the audit.**

None

- 6. Identify any major issues discussed with management prior to retention.**

None

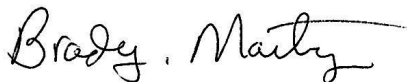
- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

None

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

Based on the audit procedures performed, the Program's critical information technology system is the Information Technology Inc. (ITI) system. There were no exceptions identified that were directly related to this application.

This report is intended solely for the information and use of the North Dakota Industrial Commission, Legislative Audit and Fiscal Review Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.



BRADY, MARTZ & ASSOCIATES, P.C.

March 10, 2010

**INDEPENDENT AUDITOR'S COMMUNICATION
TO THE INDUSTRIAL COMMISSION OF NORTH DAKOTA**

March 10, 2010

To the Industrial Commission
State of North Dakota
Bismarck, North Dakota

We have audited the financial statements of the Beginning Farmer Revolving Loan Fund for the year ended December 31, 2009. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Beginning Farmer Revolving Loan Fund are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2009. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Fund's financial statements was:

Management's estimate of allowance for loan losses is based on management's evaluation of a number of factors, including recent loan loss experience, continuous evaluation of the loan portfolio quality, current and anticipated economic conditions, and other pertinent factors. We evaluated the key factors and assumptions used to develop the allowance for loan losses in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There were no corrected or uncorrected misstatements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated March 10, 2010.

Management Consultations with Other Independent Accountants

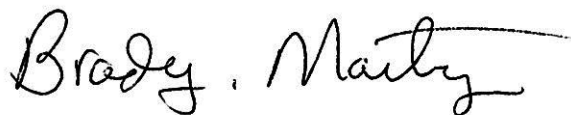
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the North Dakota Industrial Commission and management of the Beginning Farmer Revolving Loan Fund, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

BRADY, MARTZ & ASSOCIATES, P.C.